OUR FIRST YEAR IN GOVERNMENT

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- ***Regional liquidity fund (FLA) and other other assistance for Autonomous Communities***

1. ACTING ON THE SPANISH ECONOMY'S MOST URGENT PROBLEMS

a) Controlling the Public Deficit

In 2012, Spain has made the greatest effort in deficit reduction ever seen during a period of economic recession. This has been possible thanks, among other factors, to these instruments:

- *Budget Stability Act: All Public Administrations are required to comply. This has led Spain's 17 Autonomous Communities to approve 18 billion euros in savings measures this year; moreover, their deficit—which was 2.2% of GDP in 2011—has been brought down to 1.14% in October, in line with the annual target of 1.5%. Spending in ministries has been cut 25% for the 2012-2013 period.*

- *Comprehensive reform of the public sector: The government overhauled the civil service, making it possible to save 5.4 billion euros this year. Savings projected for 2013 and 2014 top 9 billion. We've launched a process to streamline and reduce the number of public companies and foundations, real estate holdings and automobile fleet.*

- *Fair tax increase: The dire situation of public accounts, with a deficit slippage of 30 billion euros in 2011, compelled the government to establish a temporary, progressive hike in personal income tax, as well as to establish modifications in other taxes, such as VAT and corporate income tax. As soon as the situation of the public accounts so enables, the government will address its commitment to cutting taxes.*

- *Combating fraud: Efforts in the inspections services have made it possible to raise 8.5 billion euros, 18.7% more than in 2012 . The tax regularization process has brought in 1.2 billion in revenue, and a 12-billion-euro expansion of the base for the next fiscal years*

1. ACTING ON THE SPANISH ECONOMY'S MOST URGENT PROBLEMS

b) Financial System Reform

- *The detailed, independent assessment of our financial system has been successfully completed. We have met the timetable agreed on with European authorities for restructuring the system and creating the SAREB, to which the most troubled assets will be transferred.*
- *In December, a 38-billion-euro capital injection, loaned by our European partners, was executed, guaranteeing the possibility of facing losses equivalent to 27% of GDP.*
- *No other country has undergone a similar process of transparency and cleaning up its books in such record time. Our financial system can now successfully face the ECB oversight approved at the latest European summit.*
- *In parallel to financial system reform, the government has adopted urgent measures to protect the most vulnerable mortgage debtors and is working to create a network of apartments for rented social housing.*

c) An Inflexible Labour Market

- *With a 25% unemployment rate, labour reform was urgent in Spain.*
- *The government immediately set to work to eliminate the rigidities of the Spanish job market, which were the source of the problem.*
- *The implementation of this labour reform package has yet to be fully felt, due to the recession and the deep administrative cuts being carried out. In spite of this, there has been a noticeable increase in the use of collective measures other than dismissals.*
- *Today, Spain's labour costs are the most moderate in Europe, together with those of Finland. Salaries have stabilised, and today's Spanish labour market represents a real competitive factor, as shown by the decisions of leading manufacturers*

1. ACTING ON THE SPANISH ECONOMY'S MOST URGENT PROBLEMS

d) Late Payments and Liquidity Problems in the Public Administrations

The new government found the majority of Public Administrations in a dire situation. One year later, no Autonomous Community has failed to meet its commitments, and the enormous debt that these regions had with their suppliers has been reduced. <u>This assistance, which totalled nearly 55 billion euros, has been tied to compliance with the commitment of budget stability.</u>

- *<u>The Supplier Payment Plan</u>: 27 billion euros have been earmarked for paying the outstanding invoices of the Autonomous Communities and Municipalities. It is estimated that the plan's injection of liquidity has made it possible to save 100,000 jobs.*

- *<u>The Regional liquidity fund (FLA) and other assistance to Autonomous Communities</u>: The Autonomous Communities which have required it have had access to the more than 12 billion euros in the FLA to meet their debt maturities and financing needs (payment for suppliers). The ICO, through a special credit line, also made available nearly 5.4 billion for the same purpose. In addition, the government advanced 3.7 billion euros to the administrations from the financing system.*

2. COMMITMENT TO REFORM

a) Maintaining the pillars of our social protection system

- ***Pensions***
- ***Health Services***
- ***Education***
- ***Unemployment Assistance***

b) Making the Spanish economy more competitive

- ***Administrative Reform***
- ***Market Unity***
- ***Energy Reform***
- ***Transparency Act***
- ***Justice Reform***
- ***Infrastructure***
- ***Coastal Act***

2. COMMITMENT TO REFORM

a) Maintaining the Pillars of Our Social Protection System

- *<u>Pensions</u>: The government has presented to the Toledo Pact Commission the regulation of sustainability factors to guarantee the pensions system, which has been hit by both the aging population and the rise in unemployment. Moreover, the process of separating sources of financing has been completed, and partial and early retirements have been limited. <u>In spite of the serious financial situation, pensions were raised by 1% in 2012 and 2013. The lowest pensions will rise by 2% in 2013.</u>*

- *<u>Healthcare Services</u>: The <u>healthcare reform</u> launched by the government guarantees the system's sustainability with criteria of equity , ending the practice of healthcare tourism, establishing savings with centralised pharmaceutical procurement and introducing a fairer contribution system. <u>To date, we have achieved savings of more than 1.2 billion euros</u>.*

- *<u>Education:</u> The government is negotiating with the different sectors involved in the LOMCE (Educational Quality Improvement Act), whose main goal is to raise the quality level of education in Spain. Furthermore , measures to streamline expenses have been adopted, such as modifying ratios, increasing teaching hours, and updating fees, leading to an annual savings of close to 4 billion euros.*

- *<u>Unemployment Assistance</u>: The reform of benefits and allowances has made it possible to eliminate deficiencies in the system. The* Prepara Plan *has also been revised, to preferentially target the long-term unemployed with families. The anti-fraud fight in this sector has enabled 70,000 jobs to emerge.*

2. COMMITMENT TO REFORM

b) Making the Spanish Economy More Competitive

- *Administrative Reform: Pursuant to an agreement with the Conference of Presidents of Spain's 17 Autonomous Communities, a Commission for Reforming the Public Administrations has been set up, with the goal of eliminating duplication, cutting red tape, and improving management through pooling services. The Commission will report its conclusions before 30 June 2013.*

- *Market Unity : The final touches are being placed on the Market Unity Act, which aims to eliminate internal barriers that hinder nationwide production and service distribution.*

- *Energy Reform: The government has adopted urgent measures to contain the huge accumulated tariff deficit , which had risen to 24 billion euros.*

- *Transparency Act: This Act, currently in the parliamentary procedure stage, guarantees citizens' access to information and establishes principles of good governance, as well as sanctions for officials who voluntarily cause economic damage to the administrations over which they have authority.*

- *Justice Reform: An overhaul of the sector has been launched, which includes reforming the Criminal Code, the Organic Law on the Judiciary, the Legal Aid Law, and the Fees Law.*

- *Infrastructure: Reform of the rail and air transport sectors has been approved, with a view to their liberalisation, in the case of the railroads, and to the entry of private shareholders, in that of the airports.*

- *Coast Act: This Act aims to better protect Spain's coasts from excess construction, grant greater legal certainty and generate confidence to promote economic activity.*

3. SPAIN IN THE WORLD

a) European Initiatives

- *One of the elements requiring the most attention from this government has been European policy. During this year, Spain has played a decisive role in rebalancing Europe's policy dynamic, crafting a European strategy to deal with the crisis, and stabilising the financial markets.*

- *Spain has also played an active role in building the Europe of the future, as shown by our contributions to the negotiations process leading to the Banking Union, Fiscal Union, and the 2014-2020 Multiannual Financial Framework.*

- *To this end, the bilateral summits held with Poland, Portugal, France and Italy have been enormously important. The government aims to make these summits annual events once again.*

b) An International Agenda for Growth

- *The President of the Government, Mariano Rajoy, has presented the most active international agenda of the first year of any government in the history of Spanish democracy. He has met with 26 Heads of State and 18 Heads of Government, as well as with the heads of the leading international organizations and financial institutions.*

- *Within this international activity, Ibero-America has been a key priority, with two official visits to this part of the world, as well as the 22nd Ibero-American Summit held in Cadiz in November. Moreover, Spain was the first European*

4. THE FIRST RESULTS

“There are no easy solutions to tough situations, nor any magic potion to cure the ills of Spain's economy.

There can be no economic recovery unless the foundations are laid to make it possible. Anything else would be untrue.

This is the best summary that we could make regarding 2012: it's been a tough year, a year of efforts and huge sacrifices, a year without tangible benefits for ordinary people.

But, in the long run, 2012 will be remembered as the year when we laid the foundations for our recovery—the pillars without which the Spanish economy couldn't get back on its feet.”

(Mariano Rajoy, President of the Government of Spain)

4. THE FIRST RESULTS

- *For the first time in 14 years, the Spanish economy needs no external financing. In the third quarter of 2012, we achieved a current account and capital surplus totalling 2.88 billion euros—the equivalent in annualised terms of 1.1% of GDP. The scale of the effort we have made can be seen in all of its intensity by looking at the fact that in 2008 – four years ago—our foreign deficit was 10%.*
- *The public administrations' deficit—not including the impact of the accounting adjustments tied to banking measures—was 5.27% at the end of the third quarter. Expenses at the ministerial level were cut 16% in 2012, and will be cut another 9% in 2013. Spain's Autonomous Communities have also contributed to this effort: up to the third quarter of 2012 they had slashed their deficit in half, from 2.2% to 1.1%.*
- *The primary structural deficit has been cut by 3.5 points since the new government came to power. This last indicator—which reflects neither the interests of our debt nor the magnitude of factors such as unemployment that are tied to the economic cycle—conveys our real level of effort in cutbacks. Such a rapid reduction in this indicator had never been achieved before.*
- *During 2012, Spain's productivity/cost ratio became the second-best in the entire EU. Labour costs in Spain have been reduced by 3%, and the product/employee ratio has risen another 3%.*
- *We have achieved surplus trade balances in non-energy goods—something which had not happened in the last 20 years. Likewise, our trade balance with our Eurozone partners is also positive, which had not happened since the mid-1990s.*
- *Spanish banks have cleaned up their books with provisions and injections of capital totalling 72 billion, or 7% of GDP. We have achieved a substantial increase in capital, which would enable the Spanish financial system to bear losses amounting to 27% of GDP.*